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Executive Summary

This report provides a review and evaluation of Kentucky General Fund and Road Fund revenues for fiscal year 2006 (FY06).

General Fund receipts totaled \$8,376.1 million for the entire fiscal year, increasing from FY05 by 9.6 percent. This is the second consecutive year that revenues have risen at this rate.

Reported revenues are \$731.1 million more than reported receipts for FY05, and are \$138.8 million above the official estimate for FY06. (The official estimate is the December 2005 consensus revenue estimate modified by changes enacted by the 2006 General Assembly.) For the fourth quarter of FY06, General Fund revenues rose 10.6 percent, and revenues were \$2,367.2 million.

Road Fund receipts in FY06 totaled \$1,165.4 million, an increase of 3.4 percent from FY05. This is \$38.8 million more than reported for FY05, and \$4.3 million below the official forecast for FY06.

Fourth Quarter FY06

The fourth quarter of FY06 saw General Fund revenues expand by 10.6 percent overall. Among the individual accounts, strong growth was seen in nearly every major category. Sales and use tax revenue was up 5.6 percent, but individual income taxes fell by 9.2 percent due to changes enacted by the 2005 General Assembly. Corporation income and license tax receipts posted growth of 65.7 percent during the fourth quarter due also to changes enacted

by the 2005 General Assembly. Coal severance taxes advanced by 14.0 percent. Cigarette taxes rose by 103.2 percent as a result of a rate increase effective June 1, 2005. Property taxes were up by 13.2 percent. Lottery receipts were up by 49.4 percent, as large Powerball sales earlier in the fiscal year resulted in higher dividends to the state in the fourth quarter.

All other accounts in the General Fund combined for growth of 18.8 percent.

The Road Fund posted a growth rate of 4.9 percent in the fourth quarter, with total revenues of \$313.4 million. During the fourth quarter, motor fuels taxes rose by 7.7 percent, and the motor vehicle usage tax was up by 1.6 percent. Weight distance tax receipts were up by 2.6 percent, and motor vehicle license taxes rose by 4.3 percent.

Annual Totals, FY06

The General Fund grew by 9.6 percent in FY06, equal to its growth rate in FY05, with total receipts of \$8,376.1 million. Sales taxes were up by 6.0 percent, and the individual income tax fell by 3.9 percent. Corporation income and license taxes rose sharply, up by 70.6 percent. Individual income taxes and corporation income taxes were both affected by *JOBS for Kentucky*, a tax modernization package enacted by the 2005 General Assembly. Specifically, the taxation of income arising from pass-through entities was shifted from the individual to corporation, which had a major effect on revenues in FY06. Apart from the changes due to legislation, growth in corporation income taxes

Fiscal Year
2006

was in line with experiences in other states and the federal government.

Coal severance taxes rose by 21.7 percent, and tobacco taxes grew by 447.0 percent due to a rate increase that was included in the *JOBS for Kentucky* package. Property taxes were up by 6.3 percent. Lottery revenues grew by 17.8 percent due to higher sales of Powerball tickets arising from unusually large jackpots. All other categories of General Fund revenue accounts combined for growth of 2.2 percent.

General Fund collections exceeded the official revenue estimate by \$138.8 million in FY06, which is 1.7 percent more than forecasted. Two-thirds of the General Fund was collected through the individual income tax and the sales tax, with the corporation income and license taxes making up the next-largest portion at 12 percent.

During the fiscal year, growth in General Fund revenues was consistently strong in all but the third quarter, when growth slowed to 4.2 percent. In the first quarter, growth was 11.6 percent, nearly the same in the second quarter at 11.5 percent, and 10.6 percent in the final quarter. Compared to economic growth as measured by estimated growth in Kentucky personal income, General Fund growth was double, at 9.6 percent versus 4.8 percent for personal income growth.

Table 1
Total Receipts
(million \$)

	FY06	FY05	(%) Chg
General Fund	8,376.1	7,645.0	9.6
Road Fund	<u>1,165.4</u>	<u>1,126.6</u>	<u>3.4</u>
Total Receipts	9,541.4	8,771.6	8.8

The Road Fund expanded by 3.4 percent during FY06, with total receipts of \$1,165.4 million. Most of the growth was in the area of motor fuels taxes, which rose by 7.6 percent due to a rate increase that was tied to the price of gasoline. On the other hand, motor vehicle usage tax revenue slipped by 2.9 percent. The weight distance tax grew by 2.7 percent, and motor vehicle license tax rose by 2.1 percent.

Overall, the Road Fund was short of the official revenue estimate by \$4.3 million, or 0.4 percent. About four-fifths of revenues were collected through the motor fuels tax and motor vehicle usage taxes.

During the fiscal year, Road Fund revenues were strong in the first quarter, weakened in the second quarter, fell by 0.8 percent in the third quarter, and rebounded by 4.9 percent in the final quarter.

The Economy

National economic growth as measured by real gross domestic product (GDP) was 3.5 percent in FY06, and in the fourth quarter alone expanded by 3.7 percent. Strength in business investment was chiefly responsible for the expansion. U.S. personal income, a measure of spending power, grew by 5.1 percent in FY06, and by 5.6 percent in the fourth quarter. Employment swelled by 1.7 percent for the year, and by 1.6 percent in the final quarter.

Kentucky's economy as measured by total personal income grew by 4.9 percent to reach \$121.7 billion in FY06. For the fourth quarter, personal income was higher by 4.4 percent. Growth was highest during the second half, when it was about five percent

compared to a year earlier. Kentucky's personal income growth has tracked growth in U.S. personal income closely since 2000.

Employment growth in Kentucky lagged U.S. employment growth slightly in FY06. Nonfarm employment rose by 1.3 percent in FY06, and in the last quarter it was up by 1.1 percent. Total gains for the fiscal year were 24,400 jobs. During FY06, Kentucky employment exceeded its pre-recession employment peak that was seen in FY01. Largest employment gains were in the service-providing sectors which rose by 1.5 percent versus growth of 1.0 percent in the goods-producing sectors. Employment in government grew by 1.1 percent.

Interim Outlook

In the next three fiscal quarters (through the FY07 third quarter) General Fund growth is expected to reach 3.8 percent with total revenues of \$6,237.9 million. Sales and use tax receipts are forecasted to rise by 1.9 percent. Individual income tax revenues should rise by 8.7 percent due to economic growth and changes enacted in the 2006 Special Session of the Kentucky General Assembly. The counterpart to this is an anticipated decrease in corporation income taxes of 7.5 percent. Reclassification of income earned by pass-through entities to the individual income tax instead of the corporation income tax accounts for the bulk of the decrease.

Coal severance tax revenue is forecasted to rise by 10.6 percent. Cigarette taxes, due to a comparison to the previous year in which the one-time floor stocks tax was paid, will decline by 7.0 percent. Property taxes are projected to fall by 4.7 percent, while Lottery receipts should rise by 8.7 percent. Other revenues will rise 4.5 percent, principally due to changes included in *JOBS for Kentucky*.

The Road Fund is forecasted to grow by 5.3 percent in the first three quarters of FY07. Motor fuels taxes should expand by 6.1 percent due to a formula-driven increase in the rate tied to the price of gasoline. Motor vehicle usage tax revenue is projected to climb by 4.1 percent in the first three quarters. Weight distance taxes are estimated to rise 3.1 percent, motor vehicle license taxes should rise 1.1 percent, and investment income will grow by 187.5 percent. Motor vehicle operators license fees are projected to expand by 12.1 percent, and all other revenues in the Road Fund should dip by 2.8 percent.

The outlook for the economy in the first three quarters of FY07 is for a slight deceleration from the growth seen in FY06, with real GDP growth of 3.0 percent over the period. U.S. personal income should rise by 6.1 percent, and Kentucky personal income is forecasted to grow by 5.2 percent. Employment growth in Kentucky is expected to pick up in the first three quarters of FY07 with an increase of 1.2 percent.

I.
Fiscal Year 2006
General Fund and Road Fund Receipts

Review of General Fund & Road Fund Receipts

FOURTH QUARTER, FY2006 General Fund

General Fund receipts in the fourth quarter of FY06 totaled \$2,367.2 million compared to \$2,141.1 million in the fourth quarter of FY05, for a net gain of 10.6 percent. Collections in the major revenue categories are shown in summary form in Table 2. Detailed information on these and other accounts is available in Appendix A.

Table 2
Fourth Quarter, FY06
(million \$)

	FY06	FY05	Diff (\$)	Diff (%)
Sales and Use	696.7	660.0	36.7	5.6
Individual Income	812.7	895.3	-82.6	-9.2
Corp. Inc. & License	481.4	290.5	190.9	65.7
Coal Severance	61.2	53.7	7.5	14.0
Tobacco Taxes	44.1	21.7	22.4	103.2
Property	57.7	51.0	6.7	13.2
Lottery	62.0	41.5	20.5	49.4
Other	<u>151.4</u>	<u>127.4</u>	<u>24.0</u>	<u>18.8</u>
TOTAL	2,367.2	2,141.1	226.1	10.6

Changes in tax laws in 2005 due to the passage of HB 272 (*JOBS for Kentucky*) had an impact on collections during the fourth quarter. Principal changes affecting revenues were in the areas of the cigarette tax and individual as well as corporation income taxes. These changes will be discussed below in the appropriate category. Variations in the quarterly receipts are often affected by differences in the timing of payments and refunds in revenue accounts. In the fourth quarter, individual and corporation income taxes were affected by these timing changes.

The sales and use tax posted growth of 5.6 percent in the fourth quarter of FY06. Receipts of \$696.7 million compare to the \$660.0 million collected in the fourth quarter of FY05.

Individual income tax receipts fell 9.2 percent in the fourth quarter of FY06 compared to collections in the fourth quarter of FY05. Receipts of \$812.7 million were \$82.6 million less than was collected in the fourth quarter of the previous fiscal year. Changes enacted by *JOBS for Kentucky* shifted some receipts from this source to the corporation income tax.

Corporation income and license taxes posted robust growth of 65.7 percent during the fourth quarter of FY06. Receipts totaled \$481.4 million compared to the \$290.5 million received a year earlier. Corporation income taxes were boosted by the shift in revenues from the individual income tax, but also from strength in corporate profitability.

The coal severance tax continued its recent strong growth by increasing 14.0 percent in the fourth quarter. Coal prices have escalated sharply in tandem with other energy prices, and this has boosted severance tax revenues. Receipts of \$61.2 million compare to \$53.7 million collected in the fourth quarter of FY05.

Tobacco taxes rose sharply in the fourth quarter, affected by both the rate increase and the imposition of taxes on snuff and other tobacco products. Receipts of \$44.1 million were 103.2 percent greater than

collected in the fourth quarter of FY05. General Fund cigarette taxes include the original cigarette excise tax of 3-cents per pack and the 26-cent per pack surtax.

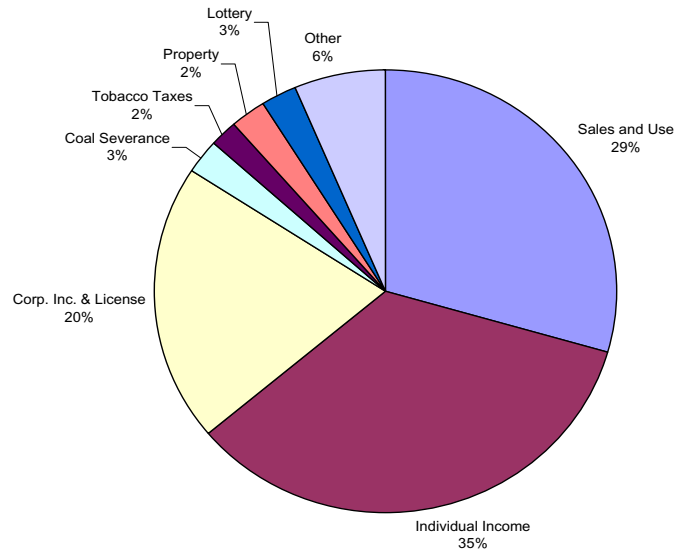
Property Taxes were up by 13.2 percent in the fourth quarter of FY06. Collections of \$57.7 million compare to \$51.0 million received in the final quarter of the prior fiscal year.

Lottery receipts rose by 49.4 percent in the fourth quarter of FY06 with revenues of \$62.0 million. Lottery revenues were affected by unusually large Powerball sales.

The “other” category represents the remaining accounts in the General Fund and combined for growth of 18.8 percent with receipts of \$151.4 million.

Figure A details the composition of fourth-quarter General Fund receipts by tax type. Sixty-four percent of General Fund revenues were in the areas of the individual income tax and the sales tax. The next-largest source of revenue was the combination of the corporation income tax and the corporation license tax. “Other taxes” combine for the next-largest source. The largest components in this category include insurance premium taxes, the inheritance tax, beer wholesale sales and use tax, the natural gas severance tax, investment income, telecommunications tax, and fines and forfeitures. Coal severance taxes and lottery receipts each composed three percent of total General Fund receipts. Property and tobacco taxes each made up two percent of the General Fund.

Figure A
Composition of Fourth Quarter FY06
General Fund Revenues



Road Fund

The Road Fund posted growth of 4.9 percent in the fourth quarter of FY06. Receipts totaled \$313.4 million compared to the \$298.9 million received in the fourth quarter of last year. Summary data are contained in Table 3 and detailed data are shown in Appendix A.

Motor fuels and motor fuels use tax receipts increased 7.7 percent during the fourth quarter of FY06. Receipts were \$136.2 million and compare to \$126.5 collected during the fourth quarter of last year. Motor fuels tax revenues were affected by an increase in the formula-driven tax rate tied to the price of gasoline.

Table 3
Summary Road Fund Receipts
Fourth Quarter, FY06
(million \$)

	FY06	FY05	Diff (\$)	Diff (%)
Motor Fuels	136.2	126.5	9.7	7.7
Motor Vehicle Usage	107.1	105.4	1.7	1.6
Motor Vehicle License	32.5	31.1	1.4	4.3
Motor Vehicle Operators	3.9	1.6	2.3	149.4
Weight Distance	21.2	20.7	0.5	2.6
Investment Income	3.2	3.2	0.0	1.1
Other	<u>9.3</u>	<u>10.4</u>	<u>-1.1</u>	<u>-10.6</u>
TOTAL	313.4	298.9	14.5	4.9

Motor vehicle usage tax receipts increased by 1.6 percent during the fourth quarter. Receipts were \$107.1 million compared to \$105.4 million collected during the same period last year.

Weight distance tax receipts of \$21.2 million showed a growth of 2.6 percent over receipts of \$20.7 million during the fourth quarter of last year.

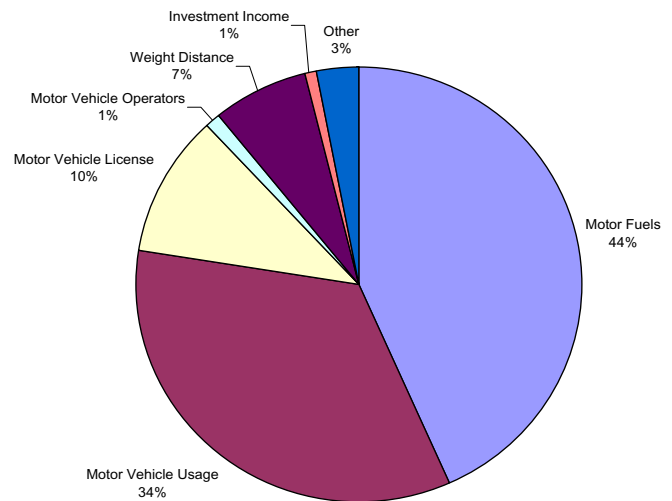
Motor vehicle license tax receipts increased by 4.3 percent during the fourth quarter of FY06. Receipts of \$32.5 million compare to \$31.1 million received during the fourth quarter of FY05.

Investment income was up by 1.1 percent in the fourth quarter of FY06, but in rounded figures both periods posted revenues of \$3.2 million.

The remainder of the accounts in the Road Fund combined for a decrease of 10.6 percent. Receipts for the “Other” category totaled \$9.3 million during the fourth quarter, compared to \$10.4 million in the fourth quarter of FY05.

Figure B details the composition of Road Fund revenues by tax type in the fourth quarter of FY06. Motor fuels taxes and motor vehicle usage taxes comprised 78 percent of Road Fund revenues in the fourth quarter. The next-largest source of revenue was the motor vehicle license tax with 10 percent, followed by weight distance taxes with seven percent. The “other” category accounted for three percent, while investment income and motor vehicle operators were each one percent.

Figure B
Composition of Fourth Quarter FY06
Road Fund Revenues



ANNUAL TOTALS, FY2006 General Fund

The General Fund grew by 9.6 percent in FY06, exactly the same rate of growth as in FY05. Receipts totaled \$8,376.1 million compared to \$7,645.0 million for the previous year. Collections in the major revenue categories are shown in summary form in Table 4. Detailed information on these and other accounts is available in Appendix A.

tax receipts fell as a result of tax shifts mandated by *JOBS for Kentucky*. The tax modernization bill reduced individual income tax rates, especially for low-income Kentuckians, and shifted taxes on business income from the individual to the corporation level for pass-through entities. Receipts totaled \$2,918.6 million and compare to \$3,036.2 million collected last year.

Table 4
FY06 General Fund Revenues Compared to Previous Years

	Million \$			Growth Rate %		
	FY06	FY05	FY04	FY06	FY05	FY04
Sales & Use	2,749.8	2,595.0	2,447.6	6.0	6.0	3.5
Individual Income	2,918.6	3,036.2	2,796.3	-3.9	8.6	1.8
Corp. Inc. & License	1,045.1	612.6	427.4	70.6	43.3	-07
Coal Severance	224.5	184.4	147.5	21.7	25.0	4.1
Tobacco Taxes	184.2	33.7	17.1	447.0	97.1	4.3
Property	502.5	472.6	448.8	6.3	5.3	3.2
Lottery	190.0	161.3	173.8	17.8	-7.2	1.6
Other	<u>561.4</u>	<u>549.2</u>	<u>519.1</u>	<u>2.2</u>	<u>5.8</u>	<u>8.5</u>
TOTAL	8,376.1	7,645.0	6,977.6	9.6	9.6	2.9

Corporation income tax revenue rose sharply in FY06, as a result of both increased corporate profits and changes by *JOBS for Kentucky*. Revenues from the corporation income tax grew by 109.3 percent with total collections of \$1,001.6 million.

The year began with strong growth that slowed in the third quarter but rebounded in the final quarter. Most major taxes except those that were cut by *JOBS for Kentucky* exhibited increases in FY06. Principal changes affecting revenues were in the areas of the cigarette tax, and individual as well as corporation income taxes. These changes will be discussed below in the appropriate category.

The sales tax growth rate for FY06 was 6.0 percent, matching last year's growth rate. Receipts of \$2,749.8 million compare to prior year receipts \$2,595.0 million.

Individual income tax receipts fell by 3.9 percent for FY06, for an decrease of \$117.6 million from last year. Individual income

taxes, meanwhile, were down sharply, falling by 67.6 percent. (The corporate license tax was abolished for taxpayers whose tax year ended on or after December 31, 2005.) The increase in corporation income tax revenue is not unique to Kentucky and reflects the strength seen recently at both the federal level as well as by most states. The surge in year-end tax receipts continues a trend that began in 2005. In addition, the change in reporting requirement for pass-through entities has boosted this tax at the expense of the individual income tax.

Coal severance tax collections continued a recent trend of sharp increases by posting a gain of 21.7 percent for FY06. Receipts totaled \$224.5 million compared to \$184.4 million collected during the prior fiscal

year. Coal severance taxes have risen primarily due to increases in coal prices that have persisted for the last two years.

Tobacco tax receipts rose during the fiscal year as a result of an increase in the rate of the cigarette tax, the imposition of a floor stock tax, and the imposition of tax on snuff and other tobacco products. The cigarette tax was increased from 3 cents per pack to 30 cents in June 2005. Tobacco taxes for the year as a whole increased by 447.0 percent over the previous fiscal year. FY06 receipts totaled \$184.2 million and compare to \$33.7 million for FY05.

Total property taxes experienced an increase of 6.3 percent during this fiscal year. Receipts totaled \$502.5 million compared to \$472.6 million collected in FY05. A change in the calculation of the state real property tax rate (new property is excluded from the statutory four percent growth limit) resulted in increased real property tax collections.

Lottery receipts grew by 17.8 percent from the previous year. Receipts of \$190.0 million compare to \$161.3 million remitted to the state last fiscal year. Lottery receipts were positively affected by unusually large Powerball sales.

The other category finished the year with growth of 2.2 percent. Receipts of \$561.4 million compare to \$549.2 million collected in FY05. Principally responsible for the growth were the imposition of the telecommunications tax and investment income.

General Fund collections for FY06 exceeded the official revenue estimate (defined as the December 2005 consensus estimate as modified by legislation from the 2006 General Assembly) by \$138.8 million as shown

in Table 5. This was 1.7 percent more than anticipated in the official estimate. The largest excess occurred in the corporation income and license tax, which was \$116.4 million above forecasted levels. On the other hand, the sales and use, individual income, property, and cigarette taxes as well as lottery receipts came in near forecasted levels.

Table 5
FY06 General Fund Revenues
Compared to Official Estimate
(million \$)

	<u>Actual</u>	<u>Estimate</u>	<u>Dif</u> <u>(\$)</u>	<u>Dif</u> <u>(%)</u>
Sales & Use	2,749.8	2,706.6	43.2	1.6
Individual Income	2,918.6	2,925.5	-6.9	-0.2
Corp. Inc. & Lic.	1,045.1	928.7	116.4	12.5
Coal Severance	224.5	214.3	10.2	4.8
Tobacco Taxes	184.2	181.5	2.7	1.5
Property	502.5	495.7	6.8	1.4
Lottery	190.0	190.0	0.0	0.0
Other	<u>561.4</u>	<u>594.8</u>	<u>-33.4</u>	<u>-5.6</u>
TOTAL	8,376.1	8,237.3	138.8	1.7

Figure C details the composition of FY06 General Fund receipts by tax type. Two-thirds of General Fund revenues were in the areas of the individual income tax and the sales tax. The next-largest source of revenue was the combination of the corporation income tax and the corporation license tax. "Other taxes" combine for seven percent. The largest components in this category include insurance premium taxes, bank franchise tax, inheritance tax, beer wholesale sales tax, the natural gas severance tax, departmental fees, and fines and forfeitures. Property taxes made up six percent of the General Fund in the entire fiscal year. Coal severance taxes composed three percent by virtue of their recent rise. Lottery revenues and tobacco taxes each were two percent of the General Fund.

Figure C
Composition of FY06
General Fund Revenues

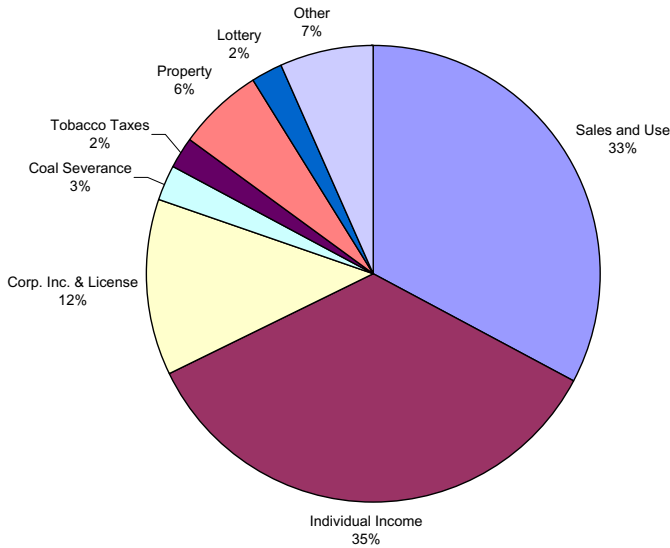


Table 6 and Figure D detail the growth rates in General Fund revenues by each fiscal quarter of FY06. Overall, growth was strong in the first two quarters, weakening in the third quarter, before rallying in the fourth. The major accounts with highest growth rates consistently throughout the year were corporation income and license taxes, coal severance taxes, and tobacco taxes. Sales tax also experienced good growth throughout the year.

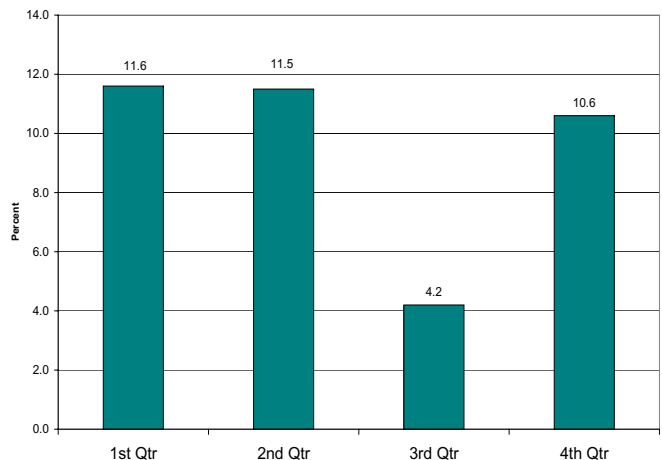
Kentucky's General Fund receipts largely reflect the overall economy, and for that reason this report includes in a later section a discussion of economic conditions in FY06. In Figure G the relative growth rates of Kentucky total personal income and General and Road Fund revenues are plotted from FY02 forward. The relation-

ship between the economy and revenues is apparent from examining the chart, although it can be observed that General Fund revenues exhibit a good deal more volatility than does total personal income. In the past two fiscal years the General Fund growth has been about twice as fast as the growth in personal income, which is an anomaly from its long-term pattern.

Table 6
General Fund Growth Rates for the Four Quarters
and Full Year FY06
(percent)

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	FY06
Sales & Use	6.4	6.3	5.7	5.6	6.0
Individual Income	3.4	1.2	-10.4	-9.2	-3.9
Corp. Inc. & Lic.	59.2	99.4	65.3	65.7	70.6
Coal Severance	22.0	20.4	32.3	14.0	21.7
Tobacco Taxes	1,332.5	1,048.7	958.4	103.2	447.0
Property	38.6	7.3	-7.8	13.2	6.3
Lottery	-17.8	-4.3	54.5	49.4	17.8
Other	-4.7	-2.4	-1.8	18.8	2.2
TOTAL	11.6	11.5	4.2	10.6	9.6

Figure D
Quarterly General Fund Growth



Road Fund

Total Road Fund receipts rose by 3.4 percent during FY06. Total receipts of \$1,165.4 million compare to \$1,126.6 million collected in this fund during FY05. Road Fund collections are detailed in Table 7.

Investment income rose by 15.4 percent as Road Fund balances increased in FY06. Receipts totaled \$6.4 million, compared to \$5.5 million in FY05.

The "Other" category fell by 1.4 percent over the previous fiscal year. Total receipts in this category were \$41.3 million, which compares to \$41.9 million collected in FY05.

Table 7
FY06 Road Fund Revenues Compared to Previous Years

	Million \$			Growth Rate %		
	FY06	FY05	FY04	FY06	FY05	FY04
Motor Fuels	528.3	490.8	460.0	7.6	6.7	1.3
Motor Vehicle Usage	395.6	407.5	429.2	-2.9	-5.1	-0.8
Motor Vehicle License	93.9	91.9	93.4	2.1	-1.6	22.6
Motor Vehicle Operators	14.6	5.9	5.6	146.7	5.4	0.2
Weight Distance	85.3	83.1	79.6	2.7	4.4	3.5
Investment Income	6.4	5.5	7.5	15.4	-26.7	-74.2
Other	<u>41.3</u>	<u>41.9</u>	<u>41.4</u>	<u>-1.4</u>	<u>1.2</u>	<u>-12.9</u>
TOTAL	1,165.4	1,126.6	1,116.7	3.4	0.9	-0.6

Motor fuels and motor fuels use taxes increased by 7.6 percent on receipts of \$528.3 million, compared to \$490.8 million collected during the previous fiscal year. Motor fuels taxes for the entire fiscal year were impacted by a statutory rate increase tied to the wholesale price of gasoline.

Motor vehicle usage tax receipts of \$395.6 million represent a fall of 2.9 percent compared to the \$407.5 million collected in FY05. Usage tax receipts have fallen as a result of fewer vehicle purchases compared to earlier years.

Weight distance tax revenues rose by 2.7 percent with receipts of \$85.3 million compared to \$83.1 million collected in the previous fiscal year.

Motor vehicle license tax receipts were up by 2.1 percent with collections of \$93.9 million, compared to \$91.9 million collected in FY05.

Road Fund collections for FY06 were \$4.3 million below the official revenue estimate (the consensus estimate of December 2005) as shown in Table 8. This was 0.4 percent less than anticipated in the official estimate. The largest excess occurred in the motor vehicle license tax, which was \$3.7 million above forecasted levels. In terms of percentages, the largest excess was in investment income, which was 68.4 percent higher than forecasted. The largest shortfall was in the motor vehicle usage tax which was \$5.6 million below the estimate.

Table 8
FY06 Road Fund Revenues
Compared to Official Estimate
(million \$)

	<u>Actual</u>	<u>Est.</u>	<u>Dif (\$)</u>	<u>Dif (%)</u>
Motor Fuels & MF Use	528.3	528.5	-0.2	0.0
Motor Vehicle Usage	395.6	401.2	-5.6	-1.4
Motor Vehicle License	93.9	90.2	3.7	4.1
Motor Vehicle Operators	14.6	16.6	-2.0	-12.0
Weight Distance	85.3	85.4	-0.1	-0.1
Investment Income	6.4	3.8	2.6	68.4
Other	<u>41.3</u>	<u>44.0</u>	<u>-2.7</u>	<u>-6.1</u>
TOTAL	1,165.4	1,169.7	-4.3	-0.4

Figure E details the composition of FY06 Road Fund receipts by source type. Nearly four-fifths of the Road Fund comes from motor vehicle usage taxes and motor fuels taxes. Following these, the motor vehicle license tax was the next-largest source of revenue, followed by the weight distance tax. “Other” taxes combined to account for four percent, and motor vehicles operators license tax and investment income each were one percent of Road Fund revenue.

Figure E
Composition of FY06 Road Fund Revenue

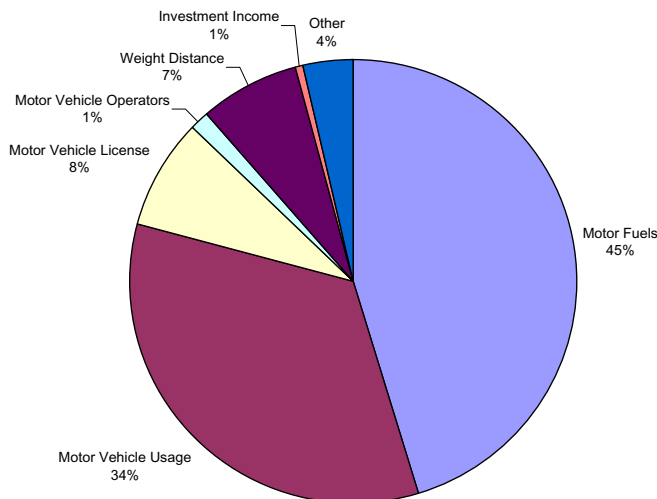


Table 9 details the growth rates in Road Fund revenue by each fiscal quarter in FY06. Overall, growth was strong in the first half of the fiscal year, negative in the third quarter, and strong again in the final quarter. The major accounts with the strongest growth included motor fuels taxes, which were impacted by a rate increase of an additional 1.1 cents per gallon, in effect for the entire fiscal year. Growth in the motor vehicle operators account was bolstered by an increase in license fees. The

weight distance tax was also up in all four quarters, whereas all other major sources had varying signs.

Unlike the General Fund, growth in the Road Fund does not follow the growth in Kentucky personal income, as seen in Figure G. In the four fiscal years prior to FY06, Road Fund growth was the strongest in FY02, when it rose 5.2 percent in the face of weak personal income performance.

Table 9
Road Fund Growth Rates for the
Four Quarters and Full Year FY06
(Percent)

	1st QTR	2nd QTR	3rd QTR	4th QTR	FY 2006
Motor Fuels	6.8	11.2	2.6	7.7	7.6
Motor Vehicle Usage	7.4	-11.7	-10.9	1.6	-2.9
Motor Vehicle License	-2.6	14.5	-3.6	4.3	2.2
Motor Veh Operators	99.6	151.1	198.1	149.4	146.7
Weight Distance	4.0	2.1	2.2	2.6	2.6
Investment Income	-19.6	-25.8	199.9	1.1	15.4
Other	2.2	9.8	15.6	-10.6	-1.2
TOTAL	6.6	3.0	-0.8	4.9	3.4

Figure F
Quarterly Road Fund Growth

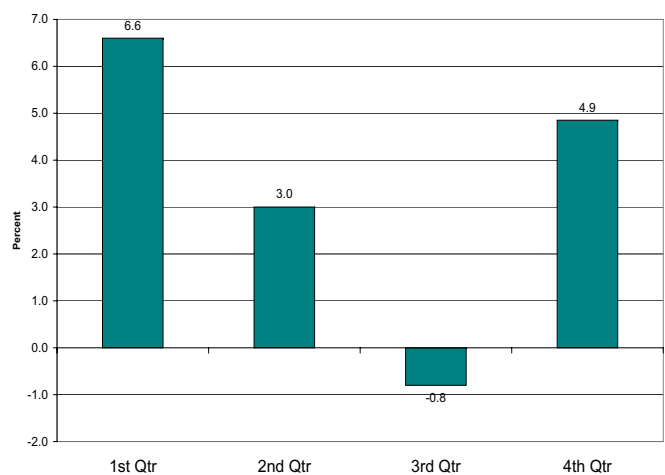
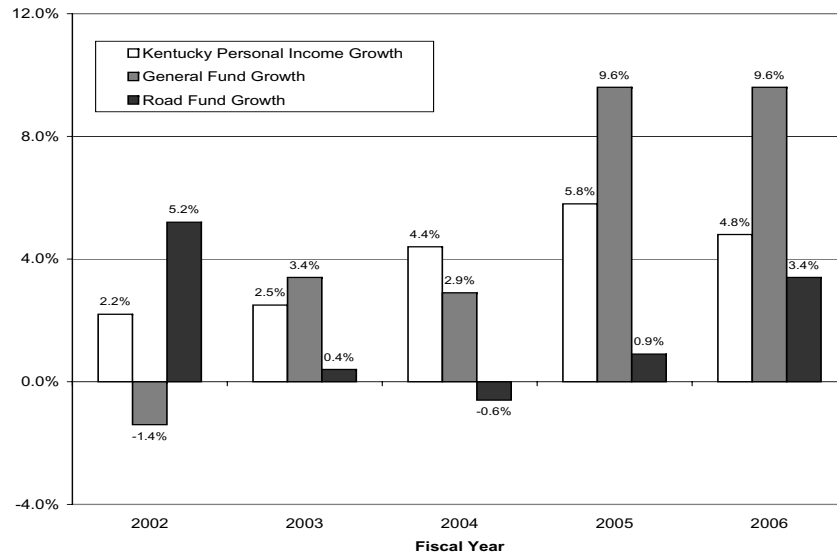


Figure G
General Fund, Road Fund and Personal Income
Growth Rates, FY00-FY06



II.

The Economy

The Economy

At the beginning of Fiscal Year 2006 all key economic indicators were poised to repeat the booming success of the previous year with even greater gusto. Then, two months into the fiscal year, came the destructive impact of Hurricane Katrina. The shock was felt far beyond the New Orleans and Mississippi delta regions because of the disruption of oil and gas supplies. The one-time spike in energy prices later turned into a prolonged general increase in prices due to increased energy demands from developing economies. In spite of the energy-related shock the net impact on the U.S. economy has been just a slight dampening in most indicators.

Employment growth defied expectations with the creation of even more jobs in FY06 than the previous year. In fact the inexplicable strength of the national economy has caused some concern to the inflation hawks at the Federal Reserve as they have continued to raise short-term interest rates to curb inflation.

NATIONAL ECONOMY

The broadest measure of economic performance is real gross domestic product (GDP). It is an inflation-adjusted measure of the total output of goods and services produced in the United States. Real GDP is estimated to have increased by a robust 3.5 percent in FY06 compared to 3.7 percent in the previous year. During the fourth quarter real GDP was up 3.7 percent from a year ago. This is a continuation of the strong growth that was established a year ago.

There are four broad components of the economy that drive overall growth: consumption, investment, government spending, and net exports. Consumption is by far the largest component, accounting for about 70 percent of the total. Real consumption (i.e., adjusted for inflation) was up 3.3 percent for the year and 3.0 percent during the fourth quarter. Consumption of durable goods slowed slightly in FY06 as energy costs claimed more of the consumers' dollar.

Table 10
US Summary Economic Conditions

	Fourth Quarter*			Fiscal Year Average		
	FY05	FY06	% Chg	FY05	FY06	% Chg
Real GDP (billion 2000 \$)	10,784.7	11,180.5	3.7	10,948.6	11,328.9	3.5
Personal Income (billion \$)	10,185.7	10,757.5	5.6	10,003.3	10,510.7	5.1
Consumer Price Index (1992-94=100)	194.0	201.7	4.0	191.7	199.0	3.8
Industrial Production (1992=100)	107.6	112.5	4.6	106.5	110.2	3.4
Civilian Labor Force (millions)	149.1	151.0	1.3	148.2	150.3	1.4
Total Nonagricultural Employment (millions)	131.3	133.4	1.6	132.4	134.6	1.7
Manufacturing Employment (millions)	14.3	14.3	-0.2	14.3	14.2	-0.6
Unemployment Rate (percent)	5.1	4.7	-	5.3	4.8	-

* Seasonally adjusted data.

Sources: Global Insight and U.S. Department of Commerce, Bureau of Economic Analysis

The price of crude oil averaged \$64.12 per barrel, up 31 percent from a year ago. In the short run it is difficult for consumers to drastically reduce their consumption of energy. The net effect of higher energy prices is usually a slight reduction in the consumption of other commodities.

With the upsurge in gasoline prices there was a 4.6 percent decline in the purchase of motor vehicles for the year. The decline was more pronounced in the fourth quarter, down 6.9 percent, as gasoline prices peaked in May. The largest increase in spending was in furniture, up 11.4 percent for the year and 12.5 percent in the fourth quarter. The purchase of nondurable goods, especially food (up 5.3 percent) and clothing (up 6.0 percent for the year), also succeeded in boosting overall consumption.

The investment climate was favorable in FY06 in spite of the drag created by steadily rising interest rates and oil prices. Real investments were up 6.4 percent for the fiscal year and 8.8 percent for the quarter. As in the past, the largest investment increase was in computer equipment and software—up 9.7 percent for both the year and in the fourth quarter. The strong gains in this sector are critical for future economic growth because much of the recent prosperity in the U.S. economy is from gains in productivity driven by investment in computer equipment.

Government spending is less than a fifth of total GDP and grew by just 1.8 percent in FY06. Foreign trade activity, on the other hand, comprises almost 30 percent of total GDP. The weak dollar resulted in exports growth surpassing imports growth: 7.1 percent vs. 6.0 percent. However, the magnitude of imports continues to exceed

that of exports. That means the foreign trade balance is still negative.

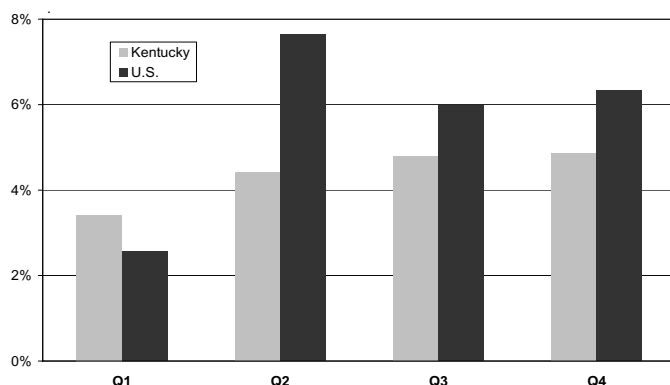
The employment news has shown substantial improvement. Total nonfarm employment is estimated to have increased by 1.7 percent during FY06 and by 1.6 percent in the fourth quarter. The major gains were in mining (up 5.1 percent for the year and 5.7 percent for the quarter), construction (up 3.8 percent for the year and 4.1 percent for the quarter), and business services (up 3.2 percent for the year and 2.8 percent for the quarter). Manufacturing employment declined by 0.6 percent for the year, but by just 0.2 percent during the fourth quarter. The unemployment rate has improved substantially during the year. It has dropped from 5.3 percent in FY05 to 4.8 percent in FY06. The average for the fourth quarter was 4.7 percent. After the surge in employment in the 1990s economists are reluctant to categorize any particular unemployment rate as representing “full-employment.” But the current rates seem to show that in FY06 the U.S. economy was essentially at full employment.

The downside in the economy has been the steady rise in inflation. Even though the Board of Governors of the Federal Reserve doesn’t set an explicit inflation target, the implicit target is under two percent. In FY06 inflation averaged 3.8 percent, and was slightly higher at 4.0 percent in the fourth quarter. This has led the Fed to ratchet up the federal funds rate from 3.25 percent on June 30, 2005 to the current 5.25 percent one year later.

The biggest negative in the economic landscape of FY06 has been the relatively modest increase in personal income. Personal income, which is a measure of spending power, posted a gain of 5.1 percent in FY06

compared to 6.3 percent in the previous year. During the fourth quarter income grew at a slightly higher rate of 5.6 percent compared to the same period a year ago. These rates are reasonable, except when adjustments are made for inflation. Then the FY06 real personal income rate falls to just 1.3 percent compared to 3.3 percent a year ago. The key seems to be in the slow increase in wages during FY06. A combination of cheap foreign goods and high domestic productivity seems to have kept the lid on wage and salary income and hence personal income. This was exacerbated with the impact of Hurricane Katrina during the first half of FY06.

Figure H
Personal Income: FY06 Quarterly Change
in KY and U.S.



STATE ECONOMY

The strength of the national economy is typically gauged by the increase in output as measured by real GDP. The performance of state economies is measured by personal income and employment. The Kentucky economy has been expanding for three years in a row, but gains in both income and employment are substantially less than the national average. The root cause can be found in the substantial reliance on manufacturing jobs. Excess manufacturing ca-

pacity abroad and the resulting competitive pressures have kept employment and income in this sector from growing.

In FY06 Kentucky personal income is estimated to have increased by 4.9 percent to \$121.7 billion. The corresponding figures for the fourth quarter were 4.4 percent and \$123.9 billion in annualized dollars. Wages and salaries comprise about 53 percent of total income. These were up by 4.4 percent during the year and a meager 3.8 percent in the fourth quarter.

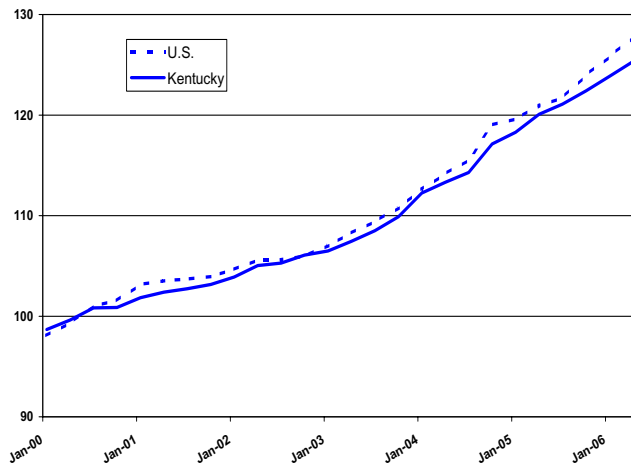
Employment data is commonly used to gauge the strength of the state's economy, primarily because of its timely availability and its impact on consumer spending and confidence. Nonfarm employment in Kentucky increased by a 1.3 percent in FY06, resulting in the addition of 24,400 jobs. In the fourth quarter, nonfarm employment grew by 1.1 percent. During the year Kentucky reached two historical milestones: employment gains finally cancelled out the dip in jobs from the recession, and nonfarm employment reached an all time high of 1,835,500. (See Figure J.)

The service-providing sectors posted the largest gains during the year with an increase of 1.5 percent compared to 1.0 percent for the goods-producing sector. Government jobs account for 17 percent of total nonfarm employment and were up 1.1 percent for the year and 0.7 percent in the final quarter.

Kentucky's employment composition has changed over the last decade and has converged closer to the national average. However, employment is still concentrated in goods-producing sectors like manufacturing and construction. The goods-producing sector accounts for 20 percent of all

jobs in Kentucky compared to the national average of 16 percent. In the last few years this has been to Kentucky's disadvantage as manufacturing facilities have moved to low-cost centers abroad, and the ones that remain have seen a surge in productivity that has reduced their need for additional workers. During FY06 rising interest rates—from the Fed's restrictive monetary policy—have had a ripple effect in dampening the economy hence employment in the goods-producing sectors.

Figure I
Personal Income: KY vs. U.S.
(Index FY00 = 100)



In FY06 manufacturing employment was flat, but showed a slight gain near the end of the year with an increase of 0.3 percent in the fourth quarter. Manufacturing of transportation equipment accounts for over one-fifth of all manufacturing jobs and was also flat. But the impact of high gas prices was seen in the 5.5 percent decline in employment in motor machinery manufacturing.

Figure J
Nonfarm Employment: KY vs. U.S.
(Index FY00 = 100)

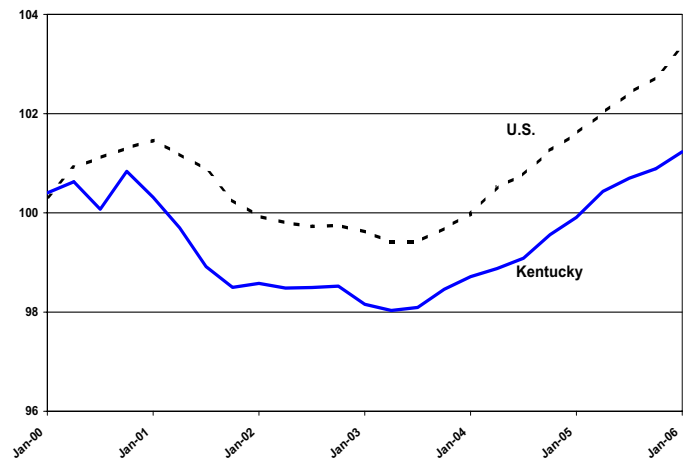


Table 11
Kentucky Economic Conditions

	<u>Fourth Quarter*</u>			<u>Fiscal Year Average</u>		
	<u>FY05</u>	<u>FY06</u>	<u>%</u> <u>Chg</u>	<u>FY05</u>	<u>FY06</u>	<u>%</u> <u>Chg</u>
Total Personal Income (\$ billions)	118.7	123.9	4.4	116.1	121.7	4.9
Wage & Salary Income (\$ billions)	65.2	67.7	3.8	63.8	66.6	4.4
Nonagricultural Employment ('000)	1,823.5	1,843.8	1.1	1,811.1	1,835.5	1.3
Goods Producing ('000)	368.7	372.9	1.1	367.1	370.7	1.0
Construction	84.4	86.3	2.3	83.8	85.8	2.4
Mining	21.2	22.7	7.3	20.3	21.9	7.7
Manufacturing	263.2	263.8	0.3	263.0	263.0	0.0
Service Providing ('000)	1,141.8	1,155.6	1.2	1,133.0	1,150.3	1.5
Trade, Transportation & Utilities	378.2	380.6	0.6	376.0	379.9	1.1
Information	29.1	29.0	-0.4	29.1	29.0	-0.2
Finance	87.5	90.2	3.1	87.1	89.0	2.3
Business Services	171.1	173.2	1.2	167.9	172.4	2.6
Educational Services	235.2	239.9	2.0	233.2	238.2	2.1
Leisure and Hospitality Services	164.7	167.3	1.6	163.0	166.2	2.0
Other Services	76.0	75.5	-0.7	76.7	75.5	-1.5
Government	313.0	315.3	0.7	311.1	314.6	1.1

* Seasonally adjusted data.

Source: Governor's Office for Economic Analysis and U.S. Bureau of Labor Statistics

III.

Interim Outlook

Interim Outlook

INTERIM OUTLOOK

General Fund

Projected General Fund revenues for the next three quarters are shown in Table 12. General Fund revenues are anticipated to total \$6,237.9 million in the first three quarters of FY07, a growth rate of 3.8 percent compared to the same period of FY06. This expected growth rate is lower than the actual growth rate for FY06, due mainly to the timing of tax law changes enacted in HB 272 (*JOBS for Kentucky*). Some taxes will see losses in revenue and others will gain.

Table 12
General Fund Interim Forecast
(million \$)

	FY06		FY07	
	Full Year		Quarters 1, 2 & 3	
	<u>Actual</u>	<u>% Chg</u>	<u>Est.</u>	<u>% Chg</u>
Sales & Use	2,749.8	6.0	2,091.5	1.9
Individual Income	2,918.6	-3.9	2,288.1	8.7
Corp. Inc. & License	1,045.1	70.6	521.5	-7.5
Coal Severance	224.5	21.7	180.5	10.6
Cigarette	177.9	427.9	126.2	-7.0
Property	502.5	6.3	424.0	-4.7
Lottery	190.0	17.8	139.1	8.7
Other	<u>567.6</u>	<u>3.4</u>	<u>467.0</u>	<u>4.5</u>
General Fund	8,376.0	9.6	6,237.9	3.8

Sales and use tax receipts are estimated to grow by 1.9 percent in the first three quarters of FY07, reflecting a slowdown in expected retail activity as well as continued reductions in the base. Sales tax receipts were strong in FY06, but loss of revenues from the exclusion of switch access fees, the Internet Tax Freedom Act, as well as the Kentucky Enterprise Initiative will result in a deceleration of revenues in the forecast horizon.

The interim forecast for the individual income tax calls for receipts to grow by 8.7 percent in the first three quarters of FY07. This increase is due to several factors. First, the reductions enacted in HB 272—lowered tax rate for some income ranges, the expansion of the low-income credit to remove income taxes from taxpayers with incomes below the poverty level, and the tuition tax credit as well as several smaller measures—have all been phased in during FY06, so future growth will reflect economic patterns more closely rather than the impacts of the tax cuts. Second, a redirection of taxes on pass-through entity income from the individual income tax to the corporation income tax that was accomplished in HB 272 is scheduled to be largely reversed in the upcoming fiscal year, boosting revenues in this source.

The outlook for corporation income and license taxes is a decrease of 7.5 percent for the first three quarters of FY07. Corporation income taxes rose rapidly during FY06 both in Kentucky and nationally, and this increase is expected to continue but at a slower rate. An additional reason for the decrease is the counterpart to the individual income tax increase: reclassification of pass-through entity income tax from the corporation income tax. This will be added to the impact of the reduction in the top marginal rate and will cause the corporation income tax to fall.

Coal severance tax revenue is expected to continue rising, but also at a slightly reduced rate compared to its increase in FY06. For the first three quarters of FY07, coal severance tax revenue is fore-

casted to expand by 10.6 percent. Higher energy prices are chiefly responsible for the expected increase.

Cigarette taxes will decline primarily to the comparison to a period in FY06 in which taxes were paid on the one-time floor stocks (inventory) tax. For the first three quarters of FY07, cigarette tax revenue is estimated to fall by 7.0 percent.

Property taxes are expected to fall by 4.7 percent in the first three quarters of FY07. This tax will be affected by changes enacted in HB 272, which exempted intangible property tax from taxation and also removed telecommunications companies from unit-value taxation.

Lottery revenues for the first three quarters of FY06 are expected to be \$139.1 million, representing an increase of 8.7 percent. Lottery revenues in FY06 were boosted by unexpected dividends arising from large sales of Powerball tickets; it is anticipated that continued Powerball sales and innovative marketing efforts by the Lottery Corporation will help boost receipts in the first three quarters of FY07.

Revenues in the "other" category should rise by 4.5 percent during the first three quarters of FY07. The main reasons for the increase include the imposition of a telecommunications excise tax (a measure included in HB 272 from the 2005 General Assembly), and a new enforcement program that will be implemented by the Department of Revenue in FY07.

Road Fund

The Road Fund is expected to grow by 5.3 percent during the first three quarters of FY07, as shown in Table 13. The Road Fund expanded 3.4 percent in FY06 as an

automatic gasoline tax rate increase as well as an increase in the drivers' license fees offset losses in motor vehicles usage tax receipts.

Table 13
Road Fund Interim Forecast
(million \$)

	FY06		FY07	
	Full Year		Quarters 1, 2 & 3	
	Actual	% Chg	Est.	% Chg
Motor Fuels	528.3	7.6	416.2	6.1
Motor Vehicle Usage	395.6	-2.9	300.2	4.1
Motor Vehicle License	93.9	2.1	62.1	1.1
Motor Vehicle Operator	14.6	146.7	12.0	12.1
Weight Distance	85.3	2.7	66.1	3.1
Investment	6.4	15.4	9.2	187.5
Other	41.3	-1.4	31.1	-2.8
Road Fund	1,165.4	3.4	896.9	5.3

Combined motor fuels tax receipts are expected to increase 6.1 percent, in large part due to continued increases in the tax rate caused by rising prices and an automatic statutory increase. This is the third consecutive year in which the rate increase has been triggered by high prices of gasoline.

Motor vehicle usage taxes are expected to grow by 4.1 percent during the first three quarters of FY07. In FY06, receipts from this category declined by 2.9 percent. The outlook for the upcoming nine months is for an improvement in vehicle sales that will lead to an increase in tax receipts.

To estimate growth of the other components of the Road Fund, GOEA consulted with officials in the Transportation Cabinet and the Department of Revenue to assess recent growth patterns as well as administrative factors in developing an updated estimate. Motor vehicle operator's license (driver's license) fees are expected to rise by 12.1 percent due to an increase in the fee passed by the 2005 General Assembly. Weight distance taxes are

expected to rise by 3.1 percent, motor vehicle license taxes are forecasted to grow by 1.1 percent, and investment income should nearly double, growing by 187.5 percent on the strength of higher investible balances and higher interest rates. The “other” category should fall by 2.8 percent due to expected declines in several types of fees.

NATIONAL ECONOMY

The economy is expected to lose some steam by the middle of FY07. The slight down shift is a result from the steadily increasing cost of borrowing as the Fed continues to hike up short term rates as well as the effect of high energy prices. Real GDP is expected to show a gain of 3.0 percent from a year ago during the July-to-March period of FY07. This is slightly lower than the 3.5 percent growth experienced in the same period in FY06.

Consumption has always been a major driver of the national economy. Consumer expenditures constitute 70 percent of real GDP. During the first three quarters of FY07 consumption is expected to increase

by just 2.8 percent compared to 3.4 percent a year ago. Consumption of durable goods is expected to soften slightly from 3.6 percent a year ago to 3.2 percent. The dampening is related to increased interest rates and the continuing decline in the demand for motor vehicles and parts.

The federal funds rate is expected to rise by another 50 basis points during the next three quarters. The increased cost of borrowing coupled with uncertainty in the market from volatile energy prices is expected to dampen investment growth in the forecast period from 5.6 percent a year ago to 4.8 percent. Most of the reduction is expected to be in structures and machinery, while information processing will continue to draw investment dollars at about the same rate as last year, from 9.7 percent during the July to March period of FY06 to 9.6 percent in FY07.

U.S. personal income is forecasted to increase by a robust 6.1 percent as non-farm employment growth increases by 1.4 percent during the first three quarters of FY07. Industrial production is expected to increase slightly to 4.2 percent, as manufacturing employment picks up a fraction by 0.4 percent.

Table 14
National Economic Outlook

	FY06 Quarters 1, 2, & 3*		
	<u>FY06</u>	<u>FY07</u>	<u>Percent Change</u>
Real GDP (billion 2000 \$)	11,282	11,622	3.0
Personal Income (billion \$)	10,428	11,063	6.1
Consumer Price Index (1992-94=100)	198.0	203.0	2.5
Industrial Production (1992=100)	109.4	114.0	4.2
Civilian Labor Force (millions)	150.1	151.9	1.2
Total Nonfarm Employment (millions)	134.2	136.1	1.4
Manufacturing Employment (millions)	14.2	14.3	0.4
Unemployment Rate (percent)	4.9	4.7	-

* Seasonally adjusted data.

Sources: Global Insight and U.S. Department of Commerce, BEA.

Data for FY07 are July 2006 estimates.

STATE ECONOMY

The overall outlook for the Kentucky economy is for continued growth with a welcome uptick in personal income. In the first three quarters of FY07 personal income is expected to grow by an average 5.2 percent to \$127.3 billion. Wage and salary income constitutes about 53 percent of personal income and is expected to increase by 4.5 percent. On the surface these improvements look slim, but given the improved forecast for inflation during the same period (2.5 percent instead of 3.7 percent) these are substantial advancements in real income from last year.

Employment growth is expected to be slightly constricted with a gain of 1.2 percent in nonfarm employment compared to 1.4 percent in the same period a year ago. The deceleration is related to a slowdown in construction (from 2.5 per-

cent growth to 1.9 percent) because of higher interest rates, and a slowdown in leisure and hospitality services (from 2.1 percent to 1.6 percent) in response to high energy costs.

The rise in mining jobs is linked to the world energy market and the continued price increase. Most of the employment gains in Kentucky are in coal mining. The 0.6 percent increase in manufacturing is based on expected strong performance of machinery manufacturing and fabricated metal products.

The service sector is forecasted to continue expanding. The expansion of business services is a normal consequence of the growth in the economy. Business services include legal and accounting services as well as a host of others like temporary help services and support services.

Table 15
Kentucky Economic Outlook

	Quarters 1, 2, & 3*		Percent*
	FY06	FY07	Change
Total Personal Income (\$ millions)	121,031	127,281	5.2
Wage & Salary Income (\$ millions)	66,231	69,206	4.5
Nonagricultural Employment ('000)	1,832.8	1,854.5	1.2
Goods Producing ('000)	370.0	375.2	1.4
Contract Construction	85.6	87.3	1.9
Mining	21.6	23.8	9.8
Manufacturing	262.7	264.2	0.6
Service Providing ('000)	1,148.5	1,162.3	1.2
Trade, Transportation & Utilities	379.7	382.2	0.7
Information	29.0	29.1	0.1
Finance	88.7	90.5	2.1
Business Services	172.1	174.8	1.5
Educational Services	237.6	241.6	1.7
Leisure and Hospitality Services	165.9	168.5	1.6
Other Services	75.6	75.6	0.1
Government	314.3	316.9	0.8

* Seasonally adjusted data.

Source: GOEA, July 2006

APPENDIX A
Fourth Quarter Report

**KENTUCKY STATE GOVERNMENT REVENUE
GENERAL FUND REVENUE**

	Fourth Quarter 2005 - 2006	Fourth Quarter 2004 - 2005	Percent Change	Year-To-Date 2005 - 2006	Year-To-Date 2004 - 2005	Percent Change
TOTAL GENERAL FUND	\$2,367,235,271	\$2,141,109,204	10.6%	\$8,376,083,216	\$645,046,634	9.6%
Tax Receipts	\$2,270,473,273	\$2,072,606,552	9.5%	\$8,065,347,817	\$350,335,469	9.7%
Sales and Gross Receipts	\$822,553,835	\$744,309,467	10.5%	\$3,174,734,842	\$838,701,120	11.8%
Beer Consumption	1,683,785	1,663,428	1.2	6,393,753	6,387,318	0.1
Beer Wholesale	11,890,957	9,844,310	20.8	45,206,839	37,815,717	19.5
Cigarette	44,114,501	13,093,357	236.9	172,069,493	24,966,880	589.2
Cigarette Floor Stock	(7,443)	8,633,665	—	12,089,404	8,633,665	40.0
Distilled Spirits Case Sales	24,102	23,877	0.9	94,806	92,178	2.9
Distilled Spirits Consumption	2,478,567	2,414,861	2.6	9,900,035	9,190,089	7.7
Distilled Spirits Wholesale	6,104,782	4,803,987	27.1	23,524,032	18,150,313	29.6
Insurance Premium	38,945,688	38,527,144	1.1	122,824,056	123,410,091	-0.5
Pari-Mutuel	2,784,714	2,726,576	2.1	5,626,849	4,710,111	19.5
Race Track Admission	44,546	32,267	38.1	230,285	195,068	18.1
Sales and Use	696,709,500	659,955,830	5.6	2,749,765,011	594,966,373	6.0
Wine Consumption	548,887	514,361	6.7	1,945,945	2,279,162	-14.6
Wine Wholesale	2,677,871	2,007,504	33.4	10,510,955	7,835,853	34.1
Telecommunications Tax	14,553,379	0	—	14,553,379	0	—
License and Privilege	\$79,597,005	\$134,971,330	-41.0%	\$386,264,573	\$427,823,269	-9.7%
Alc. Bev. License Suspension	118,500	81,000	46.3	280,450	237,101	18.3
Coal Severance	61,240,828	53,715,428	14.0	224,490,111	184,436,935	21.7
Corporation License	2,697,221	66,712,927	-96.0	43,516,942	134,149,794	-67.6
Corporation Organization	47,712	543,377	-91.2	221,281	613,048	-63.9
Occupational Licenses	104,526	84,431	23.8	174,122	188,761	-7.8
Oil Production	1,705,697	1,356,576	25.7	6,386,501	4,710,832	35.6
Race Track License	23,983	57,542	-58.3	289,258	324,642	-10.9
Bank Franchise Tax	743,944	841,015	-11.5	59,603,147	63,837,587	-6.6
Driver License Fees	163,969	127,832	28.3	600,903	522,904	14.9
Minerals Severance	3,128,441	3,318,156	-5.7	14,502,342	13,494,541	7.5
Natural Gas Severance	9,622,183	8,133,047	18.3	36,199,516	25,307,125	43.0
Income	1,291,433,243	1,119,182,729	15.4%	\$3,920,229,525	\$3,514,735,211	11.5%
Corporation	478,700,454	223,839,391	113.9	1,001,618,543	478,504,505	109.3
Individual	812,732,789	895,343,338	-9.2	2,918,610,982	3,036,230,706	-3.9
Property	\$57,700,692	\$50,956,542	13.2%	\$502,510,631	\$472,596,276	6.3%
Bank Deposits	2,147	5,307	-59.5	505,351	474,098	6.6
Building & Loan Association	1,830,025	3,121,527	-41.4	2,071,523	3,192,911	-35.1
Distilled Spirits	3,963	353	1024.2	410,798	388,612	5.7
General - Intangible	239,855	433,251	-44.6	30,955,124	26,912,813	15.0
General - Real	6,965,253	7,452,471	-6.5	215,351,439	202,182,555	6.5
General - Tangible	30,434,164	31,672,413	-3.9	165,622,948	159,883,091	3.6
Omitted & Delinquent	10,610,029	1,108,075	857.5	30,330,629	20,646,846	46.9
Public Service	7,615,012	7,060,382	7.9	57,259,849	58,787,595	-2.6
Other	244	102,762	-99.8	2,970	127,756	-97.7
Inheritance	\$9,627,763	\$14,851,019	-35.2%	\$45,990,266	\$63,174,866	-27.2%
Miscellaneous	\$9,560,734	\$8,335,466	14.7%	\$35,617,980	\$33,304,727	6.9%
Legal Process	6,333,113	6,141,696	3.1	25,118,948	24,696,032	1.7
T. V. A. In Lieu Payments	3,204,237	2,181,146	46.9	10,248,314	8,559,023	19.7
Other	23,384	12,624	85.2	250,719	49,672	404.7
Nontax Receipts	\$93,781,164	\$64,872,430	44.6%	\$302,629,799	\$286,661,124	5.6%
Departmental Fees	6,067,175	5,577,042	8.8	23,932,336	22,542,182	6.2
PSC Assessment Fee	261,346	2,456,506	—	9,041,415	13,568,805	-33.4
Fines & Forfeitures	6,517,029	6,358,132	2.5	26,129,275	25,405,780	2.8
Interest on Investments	17,810,838	6,314,479	182.1	18,681,492	6,950,902	168.8
Lottery	62,000,000	41,500,000	49.4	190,000,000	161,252,000	17.8
Sale of NOx Credits	0	0	—	1,126,000	3,586,675	-68.6
Miscellaneous	1,124,776	2,666,271	-57.8	33,719,282	53,244,780	-36.7
Redeposit of State Funds	\$2,980,834	\$3,630,222	-17.9%	\$8,105,601	\$8,050,041	0.7%

**KENTUCKY STATE GOVERNMENT REVENUE
ROAD FUND REVENUE**

	Fourth Quarter 2005 - 2006	Fourth Quarter 2004 - 2005	Percent Change	Year-To-Date 2005 - 2006	Year-To-Date 2004 - 200	Percent Change
TOTAL ROAD FUND	\$313,447,801	\$298,867,126	4.9%	\$1,165,409,505	\$1,126,554,402	3.4%
Tax Receipts-	\$304,305,265	\$288,925,388	5.3%	\$1,133,247,862	\$1,094,354,041	3.6%
Sales and Gross Receipts	\$243,329,763	\$231,860,039	4.9%	\$923,879,353	\$898,340,426	2.8%
Motor Fuels Taxes	128,139,116	119,814,110	6.9	501,927,927	469,621,779	6.9
Motor Fuels Use & Surtax	7,943,121	6,490,271	22.4	25,982,599	20,748,200	25.2
Truck Trip Permits (fuel)	100,280	107,440	-6.7	386,200	445,085	-13.2
Motor Vehicle Usage	107,147,246	105,448,217	1.6	395,582,626	407,525,361	-2.9
License and Privilege	\$60,975,502	\$57,065,349	6.9%	\$209,368,509	\$196,013,615	6.8%
Motor Vehicles	32,495,307	31,142,050	4.3	93,902,097	91,933,157	2.1
Motor Vehicle Operators	3,921,580	1,572,593	149.4	14,553,623	5,899,247	146.7
Weight Distance	21,204,983	20,672,156	2.6	85,336,610	83,069,296	2.7
Truck Decal Fees	755,697	811,937	-6.9	954,706	1,041,912	-8.4
Other Special Fees	2,597,935	2,866,613	-9.4	14,621,473	14,070,003	3.9
Nontax Receipts	\$8,715,516	\$9,260,892	-5.9%	\$30,208,832	\$30,432,049	-0.7%
Departmental Fees	3,364,789	3,806,631	-11.6	15,617,220	16,685,742	-6.4
In Lieu of Traffic Fines	325,756	314,559	3.6	1,269,800	1,326,645	-4.3
Highway Tolls	1,619,655	1,693,306	-4.3	6,296,786	6,299,049	0.0
Investment Income	3,234,249	3,198,904	1.1	6,372,788	5,524,646	15.4
Miscellaneous	171,067	247,492	-30.9	652,239	595,967	9.4
Redeposit of State Funds	\$427,019	\$680,846	-37.3%	\$1,952,811	\$1,768,312	10.4%

APPENDIX B
Summary Statistics for General and Road Funds
FY97 - FY06

SUMMARY STATISTICS FOR GENERAL FUND
MAJOR REVENUE SOURCES - FISCAL YEARS 1997-2006

	FY97	FY98	FY99	FY00	FY01
TOTAL GENERAL FUND	5,663,553,289	6,011,806,562	6,198,387,526	6,478,385,032	6,653,897,653
Tax Receipts	5,408,832,505	5,722,452,611	5,917,216,646	6,200,475,504	6,377,917,219
Sales and Gross Receipts	2,052,228,340	2,155,185,940	2,263,517,959	2,356,212,660	2,435,481,566
Beer Consumption	5,931,508	6,149,889	6,258,224	6,284,242	6,272,031
Beer Wholesale	28,898,911	29,787,991	30,612,099	32,101,648	32,582,889
Cigarette ¹	16,044,967	15,130,443	14,673,839	14,184,888	14,007,582
Cigarette Floor Stock ²	---	---	---	---	---
Distilled Spirits Case Sales	79,931	79,121	78,333	82,871	82,529
Distilled Spirits Consumption	7,878,267	7,926,002	7,955,925	8,211,541	8,184,798
Distilled Spirits Wholesale	12,590,305	12,974,726	13,398,478	14,055,368	14,809,730
Insurance Premium	85,917,179	90,231,192	90,171,779	95,355,564	96,825,818
Pari-Mutuel	5,911,958	4,845,922	7,179,163	6,645,098	6,182,083
Race Track Admission	207,489	211,759	241,307	220,824	216,615
Sales and Use	1,882,681,995	1,981,297,580	2,085,899,677	2,171,397,969	2,248,471,100
Wine Consumption	1,538,033	1,615,634	1,625,711	1,748,839	1,743,393
Wine Wholesale	4,547,795	4,935,682	5,423,425	5,923,809	6,102,998
Telecommunications Tax ³	---	---	---	---	---
License and Privilege	340,636,686	338,964,050	349,549,943	364,098,883	373,309,229
Alc. Bev. License & Suspension	1,996,165	549,768	87,800	49,150	193,800
Coal Severance	163,545,844	163,731,038	154,476,772	145,139,909	141,553,087
Corporation License	107,498,746	112,793,160	125,912,523	139,127,819	147,515,402
Corporation Organization	315,593	1,001,719	500,429	369,916	227,655
Occupational Licenses	124,500	92,140	99,658	132,811	107,737
Oil Production	3,044,497	2,135,212	1,344,942	2,967,395	3,358,036
Race Track License	438,529	407,750	395,525	405,500	320,800
Bank Franchise Tax	40,878,664	35,059,801	47,059,959	53,061,798	49,610,220
Driver License Fees	2,742,540	3,001,375	717,453	475,167	391,939
Minerals Severance	10,443,023	11,115,009	11,848,098	13,923,246	12,710,667
Natural Gas Severance	9,608,586	9,077,076	7,106,785	8,446,173	17,319,885
Income	2,497,776,090	2,751,810,830	2,844,072,023	3,008,055,957	3,068,472,461
Corporation	292,753,126	333,666,392	312,066,675	306,442,050	289,931,017
Individual	2,205,022,964	2,418,144,438	2,532,005,348	2,701,613,908	2,778,541,444
Property	414,858,124	362,792,504	370,404,549	387,257,800	407,494,858
Bank Deposits	611,478	324,856	398,666	433,962	412,646
Building & Loan Association	5,799,678	4,533,322	3,046,010	2,491,414	2,482,623
Distilled Spirits	390,594	389,838	417,610	443,880	360,248
General - Intangible ⁴	46,631,437	21,129,328	18,103,920	22,721,743	22,551,153
General - Real ⁵	170,063,059	154,245,454	161,723,137	167,326,472	171,524,695
General - Tangible ⁵	124,637,468	125,753,465	125,564,658	130,960,896	140,466,295
Omitted & Delinquent	15,098,758	13,019,424	11,926,947	15,543,134	20,605,462
Public Service	49,915,716	43,528,408	50,461,577	46,882,427	48,883,924
Other	1,709,936	(131,590)	(1,237,976)	453,871	207,812
Inheritance⁶	95,287,282	105,538,130	81,483,083	74,489,981	83,461,499
Miscellaneous	8,045,984	8,161,157	8,189,088	10,360,222	9,697,606
Legal Process	3,341,859	3,468,753	3,568,621	3,457,280	3,597,385
T. V. A. In Lieu Payments	4,550,012	4,646,467	4,586,009	6,842,117	6,046,676
Other	154,113	45,937	34,458	60,824	53,545
Nontax Receipts	252,375,721	284,461,380	272,298,984	271,911,197	266,792,632
Departmental Fees ⁷	22,588,313	21,975,158	26,095,000	32,719,509	17,062,102
PSC Assessment Fee ⁷	---	---	---	---	12,598,397
Fines & Forfeitures	38,909,723	40,670,559	45,023,992	46,056,986	40,749,856
Interest on Investments	30,966,219	60,019,607	38,324,530	28,077,454	28,217,850
Lottery	151,000,000	153,000,000	153,800,000	156,300,000	157,030,000
Sale of NOx Credits ⁸	---	---	---	---	---
Miscellaneous	8,911,466	8,796,056	9,055,462	8,757,248	11,134,428
Redeposit of State Funds	2,345,063	4,892,572	8,871,896	5,998,332	9,187,802

(Footnotes appear at end of table)

SUMMARY STATISTICS FOR GENERAL FUND
MAJOR REVENUE SOURCES - FISCAL YEARS 1997-2006

	FY02	FY03	FY04	FY05	FY06
TOTAL GENERAL FUND	6,560,216,551	6,783,458,295	6,977,623,200	7,645,046,634	8,376,083,216
Tax Receipts	6,292,004,457	6,543,157,657	6,686,290,589	7,350,335,469	8,065,347,817
Sales and Gross Receipts	2,497,020,953	2,577,542,870	2,668,210,228	2,838,701,120	3,174,734,842
Beer Consumption	6,286,734	6,334,169	6,320,886	6,387,318	6,393,753
Beer Wholesale	34,596,592	35,969,890	37,439,919	37,815,717	45,206,839
Cigarette ¹	13,943,208	16,367,947	17,136,198	24,966,880	172,069,493
Cigarette Floor Stock ²	---	---	---	8,701,966	12,089,404
Distilled Spirits Case Sales	81,922	85,601	87,662	92,178	94,806
Distilled Spirits Consumption	8,266,005	8,680,833	8,985,826	9,190,089	9,900,035
Distilled Spirits Wholesale	15,129,146	16,088,048	16,957,192	18,150,313	23,524,032
Insurance Premium	105,102,951	114,988,790	120,523,955	123,410,091	122,824,056
Pari-Mutuel	5,179,952	5,953,247	3,629,292	4,710,111	5,626,849
Race Track Admission	260,232	193,114	232,350	195,068	230,285
Sales and Use	2,299,990,621	2,364,182,478	2,447,584,698	2,594,966,373	2,749,765,011
Wine Consumption	1,786,984	1,902,818	2,005,265	2,279,162	1,945,945
Wine Wholesale	6,396,603	6,795,936	7,306,985	7,835,853	10,510,955
Telecommunications Tax ³	---	---	---	---	14,553,379
License and Privilege	356,591,984	379,857,645	368,122,494	427,823,269	386,264,573
Alc. Bev. License & Suspension	220,800	227,850	223,700	237,101	280,450
Coal Severance	160,160,116	141,664,981	147,498,230	184,436,935	224,490,111
Corporation License	117,500,770	152,595,257	124,096,012	134,149,794	43,516,942
Corporation Organization	144,233	190,494	143,804	613,048	221,281
Occupational Licenses	226,609	197,977	223,002	188,761	174,122
Oil Production	2,590,722	3,116,954	3,387,884	4,710,832	6,386,501
Race Track License	37,423	322,825	335,625	324,642	289,258
Bank Franchise Tax	50,549,169	53,747,906	55,467,195	63,837,587	59,603,147
Driver License Fees	505,187	499,003	523,979	522,904	600,903
Minerals Severance	12,355,174	12,580,912	13,711,874	13,494,541	14,502,342
Natural Gas Severance	12,301,781	14,713,486	22,511,188	25,307,125	36,199,516
Income	2,909,863,799	3,024,422,738	3,099,593,870	3,514,735,211	3,920,229,525
Corporation	207,353,777	278,035,794	303,262,821	478,504,505	1,001,618,543
Individual	2,702,510,022	2,746,386,944	2,796,331,049	3,036,230,706	2,918,610,982
Property	433,029,587	434,768,249	448,765,511	472,596,276	502,510,631
Bank Deposits	460,334	456,527	467,711	474,098	505,351
Building & Loan Association	2,249,927	3,181,373	2,513,083	3,192,911	2,071,523
Distilled Spirits	363,410	442,092	375,637	388,612	410,798
General - Intangible ⁴	23,113,567	25,883,197	27,547,183	26,912,813	30,955,124
General - Real ⁵	179,678,050	186,000,177	192,534,530	202,182,555	215,351,439
General - Tangible ⁵	151,308,795	149,426,286	149,155,206	159,883,091	165,622,948
Omitted & Delinquent	25,649,592	20,368,623	15,829,225	20,646,846	30,330,629
Public Service	49,991,359	48,836,372	60,178,393	58,787,595	57,259,849
Other	214,551	173,603	164,542	127,756	2,970
Inheritance⁶	83,359,872	95,864,480	66,083,705	63,174,866	45,990,266
Miscellaneous	12,138,263	30,701,674	35,514,782	33,304,727	35,617,980
Legal Process	5,263,021	22,994,148	27,322,798	24,696,032	25,118,948
T. V. A. In Lieu Payments	6,814,492	7,660,437	8,146,924	8,559,023	10,248,314
Other	60,750	47,090	45,061	49,672	250,719
Nontax Receipts	260,466,324	233,694,271	280,871,754	286,661,124	302,629,799
Departmental Fees ⁷	19,570,116	21,982,797	22,161,022	22,542,182	23,932,336
PSC Assessment Fee ⁷	10,455,826	8,702,466	5,389,636	13,568,805	9,041,415
Fines & Forfeitures	40,069,496	28,888,326	27,991,293	25,405,780	26,129,275
Interest on Investments	13,342,627	(7,157,704)	1,017,305	6,950,902	18,681,492
Lottery	169,000,000	171,000,000	173,800,000	161,252,000	190,000,000
Sale of NOx Credits ⁸	---	---	11,836,125	3,696,675	1,126,000
Miscellaneous	8,028,259	10,278,386	38,676,373	53,244,780	33,719,282
Redeposit of State Funds	7,745,769	6,606,367	10,460,857	8,050,041	8,105,601

(Footnotes appear at end of table)

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GENERAL FUND GROWTH RATES
MAJOR REVENUE SOURCES - FISCAL YEARS 1997-2006

	FY97	FY98	FY99	FY00	FY01
TOTAL GENERAL FUND	6.1%	6.1%	3.1%	4.5%	2.7%
Tax Receipts	6.2%	5.8%	3.4%	4.8%	2.9%
Sales and Gross Receipts	5.0%	5.0%	5.0%	4.1%	3.4%
Beer Consumption	0.8%	3.7%	1.8%	0.4%	-0.2%
Beer Wholesale	1.0%	3.1%	2.8%	4.9%	1.5%
Cigarette ¹	2.3%	-5.7%	-3.0%	-3.3%	-1.2%
Cigarette Floor Stock ²	---	---	---	---	---
Distilled Spirits Case Sales	-1.0%	-1.0%	-1.0%	5.8%	-0.4%
Distilled Spirits Consumption	-1.9%	0.6%	0.4%	3.2%	-0.3%
Distilled Spirits Wholesale	1.7%	3.1%	3.3%	4.9%	5.4%
Insurance Premium	-1.6%	5.0%	-0.1%	5.7%	1.5%
Pari-Mutuel	-17.3%	-18.0%	48.1%	-7.4%	-7.0%
Race Track Admission	-19.5%	2.1%	14.0%	-8.5%	-1.9%
Sales and Use	5.5%	5.2%	5.3%	4.1%	3.5%
Wine Consumption	1.3%	5.0%	0.6%	7.6%	-0.3%
Wine Wholesale	11.1%	8.5%	9.9%	9.2%	3.0%
Telecommunications Tax ³	---	---	---	---	---
License and Privilege	20.6%	-0.5%	3.1%	4.2%	2.5%
Alc. Bev. License Suspension	6.9%	-72.5%	-84.0%	-44.0%	294.3%
Coal Severance	-1.5%	0.1%	-5.7%	-6.0%	-2.5%
Corporation License	18.7%	4.9%	11.6%	10.5%	6.0%
Corporation Organization	-40.6%	217.4%	-50.0%	-26.1%	-38.5%
Occupational Licenses	-59.0%	-26.0%	8.2%	33.3%	-18.9%
Oil Production	15.1%	-29.9%	-37.0%	120.6%	13.2%
Race Track License	6.9%	-7.0%	-3.0%	2.5%	-20.9%
Bank Franchise Tax		-14.2%	34.2%	12.8%	-6.5%
Driver License Fees	5.5%	9.4%	-76.1%	-33.8%	-17.5%
Minerals Severance	11.7%	6.4%	6.6%	17.5%	-8.7%
Natural Gas Severance	19.7%	-5.5%	-21.7%	18.8%	105.1%
Income	5.9%	10.2%	3.4%	5.8%	2.0%
Corporation	2.8%	14.0%	-6.5%	-1.8%	-5.4%
Individual	6.3%	9.7%	4.7%	6.7%	2.8%
Property	1.4%	-12.6%	2.1%	4.5%	5.2%
Bank Deposits	105.8%	-46.9%	22.7%	8.9%	-4.9%
Building & Loan Association	62.7%	-21.8%	-32.8%	-18.2%	-0.4%
Distilled Spirits	-1.3%	-0.2%	7.1%	6.3%	-18.8%
General - Intangible ⁴	-29.9%	-54.7%	-14.3%	25.5%	-0.8%
General - Real ⁵	19.2%	-9.3%	4.8%	3.5%	2.5%
General - Tangible ⁵	-9.6%	0.9%	-0.2%	4.3%	7.3%
Omitted & Delinquent	-12.2%	-13.8%	-8.4%	30.3%	32.6%
Public Service	34.0%	-12.8%	15.9%	-7.1%	4.3%
Other	-50.2%	-107.7%	840.8%	---	---
Inheritance⁶	17.0%	10.8%	-22.8%	-8.6%	12.0%
Miscellaneous	0.4%	1.4%	0.3%	26.5%	-6.4%
Legal Process	0.5%	3.8%	2.9%	-3.1%	4.1%
T. V. A. In Lieu Payments	-2.2%	2.1%	-1.3%	49.2%	-11.6%
Other	325.5%	-70.2%	-25.0%	76.5%	-12.0%
Nontax Receipts	5.6%	12.7%	-4.3%	-0.1%	-1.9%
Departmental Fees ⁷	13.0%	-2.7%	18.7%	25.4%	-9.3%
PSC Assessment Fee ⁷					
Fines & Forfeitures	14.9%	4.5%	10.7%	2.3%	-11.5%
Interest on Investments	1.9%	93.8%	-36.1%	-26.7%	0.5%
Lottery	2.7%	1.3%	0.5%	1.6%	0.5%
Sale of NOx Credits ⁸	---	---	---	---	---
Miscellaneous	15.5%	-1.3%	2.9%	-3.3%	27.1%
Redeposit of State Funds	-15.0%	108.6%	81.3%	-32.4%	53.2%

(Footnotes appear at end of table)

GENERAL FUND GROWTH RATES
MAJOR REVENUE SOURCES - FISCAL YEARS 1997-2006

	FY02	FY03	FY04	FY05	FY06
TOTAL GENERAL FUND	-1.4%	3.4%	2.9%	9.6%	9.6%
Tax Receipts	-1.3%	4.0%	2.2%	9.9%	9.7%
Sales and Gross Receipts	2.5%	3.2%	3.5%	6.4%	11.8%
Beer Consumption	0.2%	0.8%	-0.2%	1.1%	0.1%
Beer Wholesale	6.2%	4.0%	4.1%	1.0%	19.5%
Cigarette ¹	-0.5%	17.4%	4.7%	45.7%	589.2%
Cigarette Floor Stock ²	---	---	---	---	40.0%
Distilled Spirits Case Sales	-0.7%	4.5%	2.4%	5.2%	2.9%
Distilled Spirits Consumption	1.0%	5.0%	3.5%	2.3%	7.7%
Distilled Spirits Wholesale	2.2%	6.3%	5.4%	7.0%	29.6%
Insurance Premium	8.5%	9.4%	4.8%	2.4%	-0.5%
Pari-Mutuel	-16.2%	14.9%	-39.0%	29.8%	19.5%
Race Track Admission	20.1%	-25.8%	20.3%	-16.0%	18.1%
Sales and Use	2.3%	2.8%	3.5%	6.0%	6.0%
Wine Consumption	2.5%	6.5%	5.4%	13.7%	-14.6%
Wine Wholesale	4.8%	6.2%	7.5%	7.2%	34.1%
Telecommunications Tax ³	---	---	---	---	---
License and Privilege	-4.5%	6.5%	-3.1%	16.2%	-9.7%
Alc. Bev. License Suspension	13.9%	3.2%	-1.8%	6.0%	18.3%
Coal Severance	13.1%	-11.5%	4.1%	25.0%	21.7%
Corporation License	-20.3%	29.9%	-18.7%	8.1%	-67.6%
Corporation Organization	-36.6%	32.1%	-24.5%	326.3%	-63.9%
Occupational Licenses	110.3%	-12.6%	12.6%	-15.4%	-7.8%
Oil Production	-22.9%	20.3%	8.7%	39.0%	35.6%
Race Track License	-88.3%	762.6%	4.0%	-3.3%	-10.9%
Bank Franchise Tax	1.9%	6.3%	3.2%	15.1%	-6.6%
Driver License Fees	28.9%	-1.2%	5.0%	-0.2%	14.9%
Minerals Severance	-2.8%	1.8%	9.0%	-1.6%	7.5%
Natural Gas Severance	-29.0%	19.6%	53.0%	12.4%	43.0%
Income	-5.2%	3.9%	2.5%	13.4%	11.5%
Corporation	-28.5%	34.1%	9.1%	57.8%	109.3%
Individual	-2.7%	1.6%	1.8%	8.6%	-3.9%
Property	6.3%	0.4%	3.2%	5.3%	6.3%
Bank Deposits	11.6%	-0.8%	2.4%	1.4%	6.6%
Building & Loan Association	-9.4%	41.4%	-21.0%	27.1%	-35.1%
Distilled Spirits	0.9%	21.7%	-15.0%	3.5%	5.7%
General - Intangible ⁴	2.5%	12.0%	6.4%	-2.3%	15.0%
General - Real ⁵	4.8%	3.5%	3.5%	5.0%	6.5%
General - Tangible ⁵	7.7%	-1.2%	-0.2%	7.2%	3.6%
Omitted & Delinquent	24.5%	-20.6%	-22.3%	30.4%	46.9%
Public Service	2.3%	-2.3%	23.2%	-2.3%	-2.6%
Other	3.2%	-19.1%	-5.2%	-22.4%	-97.7%
Inheritance⁶	-0.1%	15.0%	-31.1%	-4.4%	-27.2%
Miscellaneous	25.2%	152.9%	15.7%	-6.2%	6.9%
Legal Process	46.3%	336.9%	18.8%	-9.6%	1.7%
T. V. A. In Lieu Payments	12.7%	12.4%	6.4%	5.1%	19.7%
Other	13.5%	-22.5%	-4.3%	10.2%	404.7%
Nontax Receipts	-2.4%	-10.3%	20.2%	2.1%	5.6%
Departmental Fees ⁷	14.7%	12.3%	0.8%	1.7%	6.2%
PSC Assessment Fee ⁷	-17.0%	-16.8%	-38.1%	151.8%	-33.4%
Fines & Forfeitures	-1.7%	-27.9%	-3.1%	-9.2%	2.8%
Interest on Investments	-52.7%	---	---	583.3%	168.8%
Lottery	7.6%	1.2%	1.6%	-7.2%	17.8%
Sale of NOx Credits ⁸	---	---	---	-68.8%	-68.6%
Miscellaneous	-27.9%	28.0%	276.3%	37.7%	-36.7%
Redeposit of State Funds	-15.7%	-14.7%	58.3%	-23.0%	0.2%

(Footnotes appear at end of tables)

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**SUMMARY STATISTICS FOR ROAD FUND
MAJOR REVENUE SOURCES - FISCAL YEARS 1997-2006**

	FY97	FY98	FY99	FY00	FY01
TOTAL STATE ROAD FUND	960,183,780	1,011,789,674	1,056,596,153	1,090,777,822	1,064,181,565
Tax Receipts-	901,229,996	942,129,035	991,641,312	1,031,467,147	992,142,884
Sales and Gross Receipts	748,015,044	780,911,374	820,802,014	849,700,352	821,552,966
Motor Fuels Taxes	390,688,336	396,123,781	427,848,100	423,876,351	408,801,115
Motor Fuels Use & Surtax	15,316,702	17,473,744	16,853,163	15,905,613	15,492,738
Truck Trip Permits (fuel)	492,400	521,868	441,870	451,689	447,020
Motor Vehicle Usage	341,517,606	366,791,982	375,658,882	409,466,699	396,812,093
License and Privilege	153,214,952	161,217,661	170,839,298	181,766,795	170,589,918
Motor Vehicles	71,324,666	74,397,814	80,133,334	85,623,787	76,861,958
Motor Vehicle Operators	5,355,648	5,610,817	5,400,685	5,689,329	5,592,769
Weight Distance	63,061,494	66,665,457	70,155,867	75,144,201	75,170,141
Truck Decal Fees	818,525	808,104	822,074	738,342	727,675
Other Special Fees	12,654,620	13,735,469	14,327,339	14,571,136	12,237,376
Nontax Receipts	58,796,377	69,349,054	64,340,643	58,580,537	69,204,781
Departmental Fees	11,096,006	12,026,690	12,949,131	13,184,983	13,772,863
In Lieu of Traffic Fines	1,255,822	1,344,786	1,575,742	1,662,261	2,005,215
Highway Tolls	12,585,961	12,998,548	13,342,667	13,474,101	12,410,901
Investment Income	31,833,792	41,950,532	35,588,653	29,418,349	40,187,239
Redeposit of State Funds	157,407	311,586	614,199	730,138	2,833,900

(Footnotes appear at end of table)

	FY02	FY03	FY04	FY05	FY06
TOTAL STATE ROAD FUND	1,119,005,317	1,123,103,133	1,116,734,272	1,126,554,402	1,165,409,505
Tax Receipts-	1,052,848,911	1,059,296,184	1,082,189,464	1,094,354,041	1,133,247,862
Sales and Gross Receipts	873,623,010	886,809,027	889,251,190	898,340,426	923,879,353
Motor Fuels Taxes	429,812,296	438,564,438	441,382,996	469,621,779	501,927,927
Motor Fuels Use & Surtax	14,124,035	14,969,884	18,185,947	20,748,200	25,982,599
Truck Trip Permits (fuel)	383,460	371,406	439,720	445,085	386,200
Motor Vehicle Usage	429,303,220	432,903,299	429,242,527	407,525,361	395,582,626
License and Privilege	179,225,901	172,487,157	192,938,274	196,013,615	209,368,509
Motor Vehicles	84,510,332	76,192,363	93,388,573	91,933,157	93,902,097
Motor Vehicle Operators	5,564,009	5,610,829	5,623,874	5,899,247	14,553,623
Weight Distance	75,265,639	76,851,211	79,574,022	83,069,296	85,336,610
Truck Decal Fees	807,089	673,481	725,403	1,041,912	954,706
Other Special Fees	13,078,832	13,159,273	13,626,402	14,070,003	14,621,473
Nontax Receipts	64,071,745	62,789,372	32,932,009	30,432,049	30,208,832
Departmental Fees	15,137,452	18,430,002	15,258,391	16,685,742	15,617,220
In Lieu of Traffic Fines	1,960,687	1,374,668	1,521,583	1,326,645	1,269,800
Highway Tolls	13,785,486	13,263,429	7,958,452	6,299,049	6,296,786
Investment Income	32,156,652	29,115,311	7,507,462	5,524,646	6,372,788
Redeposit of State Funds	2,084,661	1,017,577	1,612,799	1,768,312	1,952,811

(Footnotes appear at end of table)

ROAD FUND GROWTH RATES
MAJOR REVENUE SOURCES - FISCAL YEARS 1997-2006

	FY97	FY98	FY99	FY00	FY01
TOTAL STATE ROAD FUND	2.2%	5.4%	4.4%	3.2%	-2.4%
Tax Receipts-	2.4%	4.5%	5.3%	4.0%	-3.8%
Sales and Gross Receipts	2.6%	4.4%	5.1%	3.5%	-3.3%
Motor Fuels Taxes	3.3%	1.4%	8.0%	-0.9%	-3.6%
Motor Fuels Use & Surtax	-32.1%	14.1%	-3.6%	-5.6%	-2.6%
Truck Trip Permits (fuel)	-21.8%	6.0%	-15.3%	2.2%	-1.0%
Motor Vehicle Usage	4.2%	7.4%	2.4%	9.0%	-3.1%
License and Privilege	1.6%	5.2%	6.0%	6.9%	-6.8%
Motor Vehicles	-2.0%	4.3%	7.7%	7.7%	-10.6%
Motor Vehicle Operators	4.8%	4.8%	-3.7%	5.3%	-1.7%
Weight Distance	5.4%	5.7%	5.2%	7.1%	0.0%
Truck Decal Fees	-4.7%	-1.3%	1.7%	-10.2%	-1.4%
Other Special Fees	2.7%	8.5%	4.3%	1.7%	-16.0%
Nontax Receipts	0.8%	17.9%	-7.2%	-9.0%	18.1%
Departmental Fees	13.2%	8.4%	7.7%	1.8%	4.5%
In Lieu of Traffic Fines	24.2%	7.1%	17.2%	5.5%	20.6%
Highway Tolls	5.8%	3.3%	2.6%	1.0%	-7.9%
Investment Income	-5.8%	31.8%	-15.2%	-17.3%	36.6%
Miscellaneous	8.6%	-49.2%	-14.0%	-4.9%	-1.5%
Redeposit of State Funds	-90.7%	97.9%	97.1%	18.9%	288.1%

(Footnotes appear at end of tables)

	FY02	FY03	FY04	FY05	FY06
TOTAL STATE ROAD FUND	5.2%	0.4%	-0.6%	0.9%	3.4%
Tax Receipts-	6.1%	0.6%	2.2%	1.1%	3.6%
Sales and Gross Receipts	6.3%	1.5%	0.3%	1.0%	2.8%
Motor Fuels Taxes	5.1%	2.0%	0.6%	6.4%	6.9%
Motor Fuels Use & Surtax	-8.8%	6.0%	21.5%	14.1%	25.2%
Truck Trip Permits (fuel)	-14.2%	-3.1%	18.4%	1.2%	-13.2%
Motor Vehicle Usage	8.2%	0.8%	-0.8%	-5.1%	-2.9%
License and Privilege	5.1%	-3.8%	11.9%	1.6%	6.8%
Motor Vehicles	10.0%	-9.8%	22.6%	-1.6%	2.1%
Motor Vehicle Operators	-0.5%	0.8%	0.2%	4.9%	146.7%
Weight Distance	0.1%	2.1%	3.5%	4.4%	2.7%
Truck Decal Fees	10.9%	-16.6%	7.7%	43.6%	-8.4%
Other Special Fees	6.9%	0.6%	3.5%	3.3%	3.9%
Nontax Receipts	-7.4%	-2.0%	-47.6%	-7.6%	-0.7%
Departmental Fees	9.9%	21.8%	-17.2%	9.4%	-6.4%
In Lieu of Traffic Fines	-2.2%	-29.9%	10.7%	-12.8%	-4.3%
Highway Tolls	11.1%	-3.8%	-40.0%	-20.9%	0.0%
Investment Income	-20.0%	-9.5%	-74.2%	-26.4%	15.4%
Miscellaneous	24.5%	-41.3%	13.2%	-13.1%	9.4%
Redeposit of State Funds	-26.4%	-51.2%	58.5%	9.6%	10.4%

(Footnotes appear at end of tables)

Footnotes to Appendix B

- ¹ The cigarette tax is composed of a 3-cent excise tax per pack, a surtax of 26 cents per pack, and a one-cent per pack tax dedicated to cancer research. The 3-cent tax is divided into the General Fund which receives 2.5 cents and 0.5 cents is dedicated to the Tobacco Research Trust Fund. The 26-cent tax all flows to the General Fund, while the other one-cent tax is not included in General Fund revenues.
- ² The cigarette floor stock tax was a one-time tax levied on cigarettes in inventory of wholesalers and retailers as of midnight, May 31, 2005.
- ³ The telecommunications tax became effective January 1, 2006, and is composed of three separate taxes. An excise tax of three percent is applied to cable and direct broadcast satellite (DBS) charges. In addition, an internal gross receipts tax is levied on cable and DBS providers at a rate of 2.4 percent of gross receipts, and on telephone service providers at a rate of 1.3 percent of gross receipts.
- ⁴ Shares of stock were exempted from property taxes beginning FY97.
- ⁵ In FY97, an indeterminable amount of tangible property tax receipts were erroneously credited to real property tax receipts accounts.
- ⁶ Phase-in of Class A beneficiary exemption began July 1, 1995. The phase-in period ended for deaths occurring after June 30, 1998. In 2001, the federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) phased out the federal estate tax, which affected Kentucky inheritance and estate tax receipts through the "pick up" tax.
- ⁷ Prior to FY03, PSC Assessment was included in Departmental Fees.
- ⁸ The sale of NOx credits was authorized beginning in FY04.

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